

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2020/2021

**BAC 3644 – TAXATION 2**

(All sections / Groups)

21 OCTOBER 2020

9 a.m. – 12 p.m.

(3 Hours)

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### INSTRUCTIONS TO STUDENTS

1. This question paper consists of 9 pages with 5 questions.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

## **QUESTION 1**

Scientax Manufacturing Sdn. Bhd. is a manufacturer of automotive components situated at Batu Berendam Industrial Park, Malacca. It was incorporated in 2017 with a paid-up capital of RM3.8 million. The company closes its accounts to 30<sup>th</sup> June each year. The details of Statement of Profit and Loss for the year ended 30<sup>th</sup> June 2020 is as follows:

**Scientax Manufacturing Sdn Bhd  
Income Tax Payable for the year of assessment 2020**

	Note	RM'000	RM'000
Sales		679,800	
Less: Cost of sales		<u>469,400</u>	
Gross Profit		210,400	
 Add: <u>Other Income</u>			
Interest	1	67	
 Less: <u>Expenses</u>			
Remuneration	2	2,350	
Employee's Provident Fund (EPF)		210	
Legal and Professional fees	3	212	
Repair and Maintenance	4	634	
Lease Payments	5	240	
Entertainment	6	290	
Insurance	7	65	
Promotion and Advertising		1,045	
Bad and doubtful debts	8	414	
Depreciation	231	<u>5,691</u>	
Net Profit before Taxation		<u>204,776</u>	

### **Notes:**

1. RM42,000 of interest was received from a charged for late payment of trade debtors and the remaining amount was received from interest on fixed deposit at Bank Perpaduan Malaysia.

**Continued...**

2. This expenditure includes a sum of RM43,000 for remuneration paid to disabled employees.
3. Included in legal and professional fees are tax filing fees of RM19,000 and secretarial fees of RM13,000 paid to Lim & Amin Associates. The company incurred RM52,000 for an income tax appeal to Inland Revenue Board of Malaysia (IRBM). RM125,000 was paid for a legal cost due to penalties charged on infringing the Customs Act.
4. Included in the repair and maintenance is a sum of RM300,000 for a replacement of the machine part. The machine was used in the production department to increase its productivity.
5. The company paid RM210,000 for a lease of machine temporarily due to accommodate a high export demand. RM30,000 was paid to Alex Motor Sdn. Bhd. for a lease of a van as a commercial vehicle which cost in 2019 when new was RM93,000.
6. Reimbursement of RM13,000 for entertainment expenses spent on customers by sales and marketing staff. RM27,000 was spent on food and drinks served to distributors during the launching of new automotive electronics devices. The remaining amount is incurred during the participation in International Automotive Fairs held at Putrajaya Convention Centre.
7. Insurance expenses paid to MSC Cargo Insurance Bhd. for an insurance premium paid to export stocks to Indonesia.
8. The company made a provision for debts which RM130,000 in respect of trade debtor who identified to be bad. The remaining was the company general provision of doubtful debts.

**Additional information:**

The current year capital allowances and balancing allowance for the year of assessment 2020 have been computed as RM112,000 and RM32,000 respectively.

**Required:**

**Starting with the ‘net profit before taxation’, compute the income tax payable of Scientax Manufacturing Sdn. Bhd. for the year of assessment 2020.**

***Note: You are NOT required to explain the adjustments made in the tax computation except to indicate “Nil” where no adjusting entries are required. Show all workings***

**[Total: 20 marks]**

**Continued...**

**QUESTION 2****Part A**

Keranji Construction Sdn. Bhd. is a construction and development company situated at Kotasas Kuantan, Pahang. In 2016 the company had entered into a project to build a condominium in Singapore which to be complete in 2019. On 3<sup>rd</sup> June 2016, the company has obtained a loan from the Bank of Singapore to finance the project. Upon completion of the project, the company paid a sum of RM480,000 for interest to the bank on 26<sup>th</sup> July 2019.

In July 2016 the company entered into an agreement with a company from Thailand, Sawadi Ltd for the rental of a plant and machinery, supplying materials and technical advice for its project in Singapore. The company incurred the following expenses:

- i. Rental of plant and machinery for RM390,000
- ii. Technical assistance for RM52,000
- iii. Purchase of materials for RM3,750,000

**Required:**

**Explain whether the above payments made by Keranji Construction Sdn. Bhd. are subject to withholding tax and calculate the amount of the withholding tax (if any) for each of the payments above.**

**(10 marks)**

**Part B**

Pandora Estate Sdn. Bhd. (accounting year ended 31<sup>st</sup> March annually) commenced working on an oil palm plantation in Paroi, Negeri Sembilan. The following table details the expenditures incurred by the company:

Date	Capital expenditure	RM
1/2/2016	Clearing of land	130,000
15/4/2016	Construction of roads	170,000
1/3/2017	Construction of labour quarters A	205,000
1/5/2017	Construction of smokehouse	85,000
1/1/2018	New planting (oil palm)	250,000
11/11/2019	Construction of labour quarters B	90,000
1/6/2020	Repairs of road	40,000

**Continued...**

The labour quarters A was sold to Rangga Estate Sdn. Bhd. (accounting year ended 31st December each year), a neighboring agriculture company on 31<sup>st</sup> January 2020. The company used the quarters in its business.

**Required:**

**Compute the agriculture allowance and/or charge for Pandora Estate Sdn. Bhd. and Rangga Estate Sdn. Bhd. for all relevant years of assessment up to the year of assessment 2020. Assume that Pandora Estate Sdn. Bhd. did not elect Paragraph 27 of Schedule 3, Income Tax Act 1967.**

**(10 marks)**

**[Total: 20 marks]**

**QUESTION 3**

Puan Marlina signed a sales and purchase agreement for the purchase of a piece of land on 25<sup>th</sup> August 2015 for RM320,000. The land was acquired through three times installment which settled on 31<sup>st</sup> October 2015. During the acquisition, Puan Marlina paid RM5,711 for the stamp duty and RM3,882 for the legal fees.

After two months she bought the land, she spent RM72,000 for leveling the land and installed a drainage system.

In January 2016, she received compensation of RM55,000 from a developer for a landslide caused by the development nearby her land.

On 1<sup>st</sup> January 2018, Puan Marlina disposed of the land. She incurred RM7,040 for the tax agent fees for the filing of the real property gains tax (RPGT) return. She also paid RM3,000 for advertising and RM5,000 for brokerage fees. The buyer agreed to buy the land for RM510,000 and signed an agreement on 19<sup>th</sup> March 2018. A full settlement was on 9<sup>th</sup> May 2018 and the title was transferred to the buyer on 9<sup>th</sup> June 2018.

**Required:**

- (i) Compute the chargeable gain arising from the disposal of the land after exemption under schedule 4 of the Act.**

**(14 marks)**

**Continued...**

**(ii) Explain the tax treatment for the property if Puan Marlina had gifted the property to her daughter in April 2019.**

**(4 marks)**

**(iii) What is the deemed acquisition price of the property to the daughter?**

**(2 marks)**

**[Total: 20 marks]**

#### **QUESTION 4**

Datuk Vijaya is a director of Maliwah Estate Sdn. Bhd. (MESB), a property development company for almost ten years. The company is among the successful developer in Malaysia and had won several prestigious awards.

During a year of assessment 2019, he being investigated by tax authority from the Tax Audit and Investigation Department for under-declaring his income. He received a notice to furnish a capital statement for the year of assessment 2019.

As a tax advisor appointed by him, you are requested to prepare the capital statement based on the information provided by him:

1. Bungalow at Putrajaya bought in 1997 at a cost of RM520,000. The market value of the bungalow was RM1,500,000 and RM1,650,000 during the year 2018 and 2019 respectively.
2. Audi car purchased in July 2017 for RM270,000 was financed through an advance from MESB. The balance owing for the year 2018 is RM100,000 and was settled in the year 2019.
3. Savings account balances as at 31<sup>st</sup> December 2019 were RM70,000 at Bank Cemerlang and RM42,000 at Bank Serantau.
4. Cash in hand was estimated at RM8,000 for both years.
5. Exclusive watches and jewelry owned are estimated at RM110,000.
6. Monthly household expenses were estimated at RM8,000 for the year 2019.
7. RM5,000 per month is allowances given to his daughter who studies at Michigan University of London.
8. Income declared for the year 2019 was RM220,000.
9. Income taxes paid to Inland Revenue Board for the year 2019 was RM50,000.

**Required:**

**(i) Compute the omitted income (if any) of Datuk Vijaya for the year of assessment 2019 by using the capital accretion method (mean test).**

**(16 marks)**

**Continued...**

- (ii) As a tax advisor for Datuk Vijaya, you are required to advise him pertaining to the taxpayer's responsibilities under section 80 of the Income Tax Act 1967 with relates to tax audit and tax investigation.

(4 marks)

[Total: 20 marks]

### **QUESTION 5**

Diamond Sdn. Bhd. was incorporated in the year 2016 with the principal activity is a manufacture of fiber optic. This product is promoted product which eligible to claim for a pioneer status or investment tax allowance under the Promotion of Investment Act 1986.

The company has prepared the following information:

<b>Year ending 31 August</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Adjusted income/(loss)	(900)	1,400	3,100	4,900
Capital allowances	700	800	900	1,700
Capital expenditure incurred:				
Land	1,000			
Factory building	3,000			
Plant and machinery	2,000			400

**Required:**

- (i) For all relevant years of assessment, compute the chargeable income and the amount to be credited to the exempt income account by Diamond Sdn. Bhd. claiming for:

(a) investment tax allowance (ITA) of 60%.

(8 marks)

(b) pioneer status.

(10 marks)

**Continued...**

- (ii) Based on your computation in (i) above, state (with reasons) whether you would advise Diamond Sdn. Bhd. to apply for pioneer status or investment tax allowance.

(2 marks)

[Total: 20 marks]

Continued...

**APPENDIX 1****TAX RATES AND ALLOWANCES****i) Tax rates of resident company**

<b>Chargeable income</b>	<b>Rate</b>
<= RM500,000	17%
Excess RM500,000	24%

**ii) Tax rates of non-resident company**

All chargeable income	24%
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**iii) Non-resident tax rate (other than non-resident company)**

<b>Type of income</b>	<b>Year 2019</b>
	<b>Rate of Tax (%)</b>
Interest	15
Royalty	10
Contract payment	10 + 3
Technical and management fees	10
Lease rental of movable properties	10
Public entertainers	15
Section 4(f) income	10

**iv) Capital allowances**

<b>Type of assets</b>	<b>Initial Allowance (%)</b>	<b>Annual Allowance (%)</b>
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

**Continued ...**

**v) Agriculture and forest allowance**

	<b>Capital expenditure – Agriculture</b>	<b>Rate of allowance (%)</b>
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	<b>Capital expenditure-Forest</b>	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

**vi) Real property gains tax**

**Disposal by all persons for YA2019**

<b>Holding Period</b>	<b>Individuals Citizen or Permanent Resident</b>	<b>Non-Citizen or Non-Permanent Resident</b>	<b>Sdn. Bhd.</b>	<b>Others</b>
Within 3 years	30%	30%	30%	30%
In the 4 <sup>th</sup> year	20%	30%	20%	20%
In the 5 <sup>th</sup> year	15%	30%	15%	15%
Beyond 5 years	5%	10%	10%	5%

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